

## Minutes of the Meeting of the Lottery Advisory Commission

December 6, 2004

### Attendance

A meeting of the Lottery Advisory Commission was held from 10:00 a.m. to 12:00 noon on Monday, December 6, 2004, in the 17<sup>th</sup> floor Conference Room of the Attorney General's Office at the State Capitol in Bismarck. Representing the Commission were Chairman RaeAnn Kelsch, Representative Lois Delmore, Senator Jerry Klein, Mr. Laurel Thoreson, and Ms. Darlene Watne (by telephone). Representing the North Dakota Lottery (Lottery) were Mr. Chuck Keller, Director, Ms. Danielle Schaefer, Administrative Staff Officer, and Ms. Eileen Walsh, Sales and Marketing Specialist. Mr. Ron Tolstad (Audit Manager), Mr. Ed Nagel, and Ms. Cindi Peterson of the State Auditor's Office, and Mr. Dan Nameniuk of Scientific Games International, Inc. (SciGames) participated in the meeting. No member of the public attended.

Commissioner Delmore made a motion to approve the minutes of the October 18, 2004, meeting. Commissioner Watne seconded the motion. The motion passed 5-0.

### Audit Report

Mr. Tolstad congratulated the Lottery Advisory Commission and Lottery for the successful implementation of the Lottery. He presented the 2003-2004 audit report on the Lottery, including the report on internal control and compliance. The audit report contained an unqualified (clean) opinion. The Lottery's financial statements are fairly stated in accordance with generally accepted accounting principles. Mr. Tolstad explained the management letter that contained the State Auditors Office's informal recommendations. There was one reportable item involving internal control (unrestricted employee access to the Games Management System), but it was not considered a material weakness, and one reportable non-compliance item involving Lottery law (deposit of Lottery revenue in the Bank of North Dakota checking account rather than the Lottery's operating fund). The Lottery's response to the two items was included in the report as Appendix A. The whole audit report is located on the State Auditors Office's website.

Mr. Tolstad explained the purpose of the August 9, 2004 engagement letter. The State Auditor's Office and Lottery had agreed that the auditors who were assigned to the audit and their immediate family members would not buy or redeem lottery tickets during the audit. Mr. Tolstad indicated that since the Lottery's operation, including its accounting process, Games Management System, and system of internal control, is so sensitive, the audit work papers are declared confidential and will remain confidential for five years.

Mr. Tolstad explained the September 30, 2004 audit committee letter related to the responsibilities of the auditors on planning and performing the audit and the Lottery's Management Discussion and Analysis. The Advisory Commission serves as the audit committee of the Lottery. He explained the Significant Accounting Policies section of the

document. There were no questionable accounting practices or noted significant accounting or audit adjustments. Mr. Tolstad indicated that the auditors received full cooperation and had full access to Lottery employees and management.

Mr. Keller commended the State Auditor's office and its proficient staff for their diligence and professionalism. He asked that the independent auditor's report be addressed to Attorney General Stenehjem since he is ultimately responsible for the Lottery. Mr. Keller indicated that three of the four informal recommendations have been implemented and the fourth recommendation will be implemented by December 31, 2004.

### Marketing Plan

Ms. Walsh updated the Commission on the Lottery's marketing plan. She stated that the Lottery staff met with representatives of SciGames and H2M (advertising agency) to develop promotional ideas. SciGames presented many options that are available on the lottery terminals. Ms. Walsh presented the proposed 2005 marketing plan.

Scheduled for the first quarter of 2005 is a "First Anniversary Promotion." A furniture chain store had agreed to provide six \$2,500 gift certificates to be given away to players during the promotion. The qualifier would be a five dollar ticket purchase in which the lottery terminal will issue an entry coupon that would be kept by the qualifying player. Winning entries would be selected through a random number generator.

Scheduled for the second quarter of 2005 is a "Retailer Clerk Powerball Power Play Promotion." The Lottery's Power Play sales in relation to Powerball sales are higher than most state lotteries, but the Lottery desires that the percentage be the highest. When a clerk sells a ticket with the Power Play option, the lottery terminal will issue an entry form which the clerk can mail to the Lottery's office.

Scheduled for the third quarter of 2005 is a launch of a new game and player/retailer research. The research will be a baseline study involving telephone interviews with the public and players on various items. Also, scheduled for the third quarter of 2005 is a "Ten Millionth Ticket Promotion."

Scheduled for the fourth quarter of 2005 is a "Subscriptions Promotion." The Multi-State Lottery Association (MUSL) recently authorized its member lotteries to provide players the opportunity to use subscriptions to pre-pay and be automatically entered in draws for 13, 26, or 52 weeks. It is projected that subscriptions will increase sales of tickets by at least 5%. A subscriber must have a North Dakota address.

Ms. Walsh indicated that the "Give-A-Gift Promotion" began December 3. Several daily newspapers will be running ads for the promotion.

Ms. Walsh indicated that the Lottery is working on winner awareness promotional ideas and plans to invest in better outdoor signs for retailers. The signs would be a combination of "call to action" and "jackpot awareness" signs. Mr. Keller stated that pay-at-the-pump

features at gas stations do not require customers, or potential players, to enter the store. This does not encourage customers to buy lottery tickets.

### Proposed Legislation

Mr. Keller explained several key provisions of the draft lottery legislative bill, as follows:

1. The lottery law would be amended to make it clear, concise, technically correct, and match the Lottery's business model;
2. The Lottery would have a \$1 million short-term line of credit with the Bank of North Dakota. It would be tapped only if the Lottery needed to pay two or more major prizes of \$100,000 or more and until the lottery is reimbursed funds from other state lotteries through the Multi-State Lottery Association;
3. The Lottery's allocation to the compulsive gambling treatment and prevention fund would be a fixed transfer of \$50,000 each quarter (\$400,000 per biennium), rather than determining a quarterly transfer amount by formula (5% of gross profits). This would assist the Department of Human Services;
4. The Lottery would be able to release the name, city, state, and prize amount of players who won prizes over \$100,000. Originally, the amount proposed was \$50,000. The commissioners felt this higher amount was more acceptable. Disclosure would add credibility to the lottery and enable the Lottery to create winner awareness; and
5. The Lottery would be exempt from conducting a Regulatory Analysis and Economic Impact Statement. The size of a retailer should not be a discretionary factor for applying less stringent compliance or reporting requirements, schedules or deadlines, performance standards, or for exempting a retailer from compliance.

Chairman Kelsch indicated that she and several other legislators, including Commissioners Delmore and Klein would sponsor the lottery bill, rather than the Attorney General's Office.

### New Game

Mr. Keller conveyed that the Lottery's fourth game would be similar to the game Match 6 that is presently conducted by the Pennsylvania Lottery. He indicated that the Lottery's product mix of six games should all be launched by the end of calendar year 2006. These six games would provide a range of minimum jackpots of \$20,000 to \$10 million and a broad range of odds from 1 in 3.5 to 1 in 36.

### State General Fund Revenue Forecast

The Lottery updated the state general fund revenue forecast to \$4.5 million for the 2003-2005 biennium and \$7.1 million for the 2005-2007. This forecast was done in July 2004 and was based on Powerball jackpots not exceeding \$60 million, which is the average high jackpot. OMB did its own state general fund revenue forecast for the Lottery which will be part of the Governor's executive budget. The Lottery's forecast is more conservative than OMB's forecast because history has shown that a state lottery's sales normally decrease by 10% - 30% after a lottery's first year of operation.

The members of the Advisory Commission recommended several items for Mr. Keller to include in the transmittal of the audit report to the Governor, Attorney General, State Treasurer, and Legislative Assembly.

### Report by SciGames

Mr. Nameniuk stated that the technical aspects of the Lottery have been going extremely well. Field technicians have been visiting retailers at least four times per year to maintain the terminals, conduct additional training as needed, and ensure that retailers are complying with the Lottery law and rules. Most of the retailers seem satisfied with the Give-A-Gift promotion. Mr. Nameniuk recommended that the report to the Governor include the number of new jobs the Lottery has provided. The only record-keeping issue with retailers is the ticket stock inventory log that must be current and complete should there be a jackpot winner.

### Hiring a New Staff Member

Mr. Keller stated that several people were interviewed for a vacant 7<sup>th</sup> Lottery position - a Customer Relations Specialist.

### Adjournment

Chairman Kelsch expressed gratitude to the Lottery staff and Scientific Games for a great audit report.

Commissioner Delmore made a motion to adjourn. Commissioner Thoreson seconded the motion. The motion passed 4-0 (Senator Klein absent).